

The Procter & Gamble Company Annual Report

for the year ended June 30, 1981

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The Procter & Gamble Company
Cincinnati, Ohio

Directors

EDWIN L. ARTZT	<i>Executive Vice President</i>
CHARLES M. BARRETT, M.D.	<i>President and Chief Executive Officer The Western and Southern Life Insurance Company</i>
OWEN B. BUTLER	<i>Chairman of the Board</i>
RICHARD J. FERRIS*	<i>President and Chief Executive Officer UAL, Inc.—airlines, hotels, and business services</i>
CHARLES M. FULLGRAF	<i>Group Vice President</i>
EDWARD G. HARNESS	<i>Chairman of the Executive Committee of the Board</i>
AMORY HOUGHTON, JR*	<i>Chairman of the Board Corning Glass Works</i>
THOMAS LACO	<i>Executive Vice President</i>
WALTER F. LIGHT	<i>President and Chief Executive Officer Northern Telecom Limited telecommunications equipment</i>
GEORGE C. MCGHEE*	<i>Former Chairman of the Board—Saturday Review/World Former United States Ambassador to Turkey and Germany and Under Secretary of State for Political Affairs</i>
FRANK R. MILLIKEN	<i>Former Chairman and Chief Executive Officer Kennecott Corporation metal mining and fabrication, abrasives, refractories and engineered products</i>
HOWARD J. MORGENS	<i>Former Chief Executive Officer and now Chairman Emeritus</i>
JAMES W. NETHERCOTT	<i>Senior Vice President</i>
DAVID M. RODERICK*	<i>Chairman of the Board and Chief Executive Officer United States Steel Corporation</i>
HORACE A. SHEPARD*	<i>Former Chairman of the Board and Chief Executive Officer—TRW Inc. electronic, automotive, industrial and aerospace equipment</i>
JOHN G. SMALE	<i>President and Chief Executive</i>
MARINA v.N. WHITMAN, Ph.D.*	<i>Vice President and Chief Economist General Motors Corporation</i>

*Members of the Audit Committee

Principal Officers

EDWARD G. HARNESS
Chairman of the Executive Committee

OWEN B. BUTLER *Chairman of the Board*
JOHN G. SMALE *President and Chief Executive*

EDWIN L. ARTZT *Executive Vice President*
THOMAS LACO *Executive Vice President*

Senior Vice Presidents

W. WALLACE ABBOTT
DONALD I. LOWRY
JAMES W. NETHERCOTT
DAVID S. SWANSON
HARRY TECKLENBURG
WAHIB N. ZAKI (elected July 14, 1981)

Group Vice Presidents

ROBERT E. CANNON
GERALD V. DIRVIN
KINGSTON FLETCHER
CHARLES M. FULLGRAF
ALBERT E. HARRIS
JOHN E. PEPPER, JR.

Vice Presidents

CHARLES C. CARROLL *Toilet Goods Division*
WILLIAM O. COLEMAN *International*
CHARLES E. EBERLE *Manufacturing, International*
JAMES M. EDWARDS *Paper Products Division*
WILLIAM E. FORBIS *Sales*
ANTHONY D. GARRETT *Advertising and Purchases, Europe*
GEORGE M. GIBSON *Comptroller*
ROBERT V. GOLDSTEIN *Advertising*
POWELL McHENRY *General Counsel*
GEORGE H. PERBIX *Purchases*
GEOFFREY PLACE *Research and Development*
SAMIH A. SHERIF *Export and Special Operations Division*
SANFORD G. WEINER *Food Products Division*
FRED M. WELLS *Industrial Chemicals Division*
R. MARVIN WOMACK *Manufacturing, United States*

EDWIN H. EATON, JR. *Treasurer*
ASHLEY L. FORD *Secretary*

To Our Shareholders:

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Owen B. Butler



John G. Smale

Financial Highlights

We submit herewith the Annual Report of The Procter & Gamble Company for the 1981 fiscal year which ended June 30, 1981.

Net sales for the year amounted to \$11.4 billion, an increase of 6% over net sales of \$10.8 billion for the previous year.

Net earnings from operations amounted to \$668 million, or an increase of 4% over net earnings of \$640 million for the preceding year. Earnings per share from operations were \$8.08 which compares with \$7.74 for the previous year. These operating earnings for the latest year exclude the \$75 million, or 91¢ per share, extraordinary charge in the first quarter arising from our decision to suspend the sale of Rely tampons.

Dividends of \$3.80 per share were paid during the year. The comparable amount for the previous year was \$3.40 per share.

Suspension of Rely

In September, 1980, we suspended sale of Rely tampons in the wake of controversy surrounding a newly identified disease called Toxic Shock Syndrome (TSS). This was discussed in some detail in the annual meeting report sent to all shareholders last fall. At that time, and still today, we are not aware of any defect in Rely which could contribute to TSS, nor has the withdrawal of Rely significantly changed the occurrence of the disease. Looking to the future, we are continuing our own research and working with outside research groups whose efforts are directed towards identifying the causes of this disease.

Rely is a superior product whose advanced technology exemplifies the kind of product breakthrough we strive for in our research efforts. With what we know thus far, we firmly believe that Rely will eventually be exonerated from having caused TSS.

A reserve of \$75 million after-tax, or 91¢ per share, was established to cover the one-time loss effects related to the suspension. This reserve includes provision for all costs which we believe may arise from the controversy.

**Overall
Results**

Net earnings from operations for 1981 were reduced by \$8 million, or 9¢ per share, from the effects of several accounting changes. Most importantly, we extended the application of last-in, first-out (LIFO) accounting to additional inventories. This change eliminates inventory profits, conserves cash, and better relates current costs to current revenues. The effect on 1981 earnings of extending LIFO and of two other changes involving capitalization of interest and employee vacation costs are discussed on page 22. Restatement for these changes of previously published quarterly and annual earnings appears on pages 26 and 28-29.

Fluctuations in foreign currency exchange rates had a relatively small overall effect on 1981 earnings. As was the case in 1980, the effects were erratic by quarters. Less favorable exchange effects reported in the first nine months of the most recent fiscal year were more than offset in the April-June quarter as the U.S. dollar strengthened against most world currencies.

The growth in after-tax operating earnings for the latest year was held back by a higher effective income tax rate compared with the previous year. Domestic investment tax credits were \$19 million higher in the previous year, resulting from the completion of a number of major capital projects, and were the major reason for this past year's higher tax rate. Operating earnings on a before tax basis were up 10% compared with the previous year.

Although we are not pleased with the modest increase in earnings, the basic health of the business is strong as far as share of the market is concerned — in most product categories and in most areas of the world.

**United
States
Business**

Net earnings from operations in the United States totaled \$556 million, a 7% increase over the previous year.

Our business was affected by the sluggishness and uncertainty in the domestic economy. Domestic consumer shipments increased only modestly over the previous year. Nevertheless, we are encouraged by improved margins in several consumer product categories.

Industrial product shipments were slightly below the level of the previous year. Our industrial business was affected to a somewhat greater degree by the economic slowdown than was the consumer business. Our earnings were also affected by start-up costs at our new Georgia pulp plant.

At present, we have ten new consumer products in test markets which demonstrate the ongoing vitality of our new brand program. These include our first entries in some categories. We will continue to seek new opportunities in new and existing product categories, both of which have been important sources of growth in the past.

There are some early signs that inflation is abating in the United States which should pave the way for a healthier economy and improvement in the year ahead for our domestic business.

**International
Operations**

International operations contributed \$130 million to net earnings, down 12% from the record-breaking results of the previous year.

Operations in Latin America, Canada, and the Middle East made good progress in both volume growth and profitability.

In Europe, however, while volume grew, the economic slowdown reduced the rate of volume growth of recent years and also reduced profitability in some product lines. We also incurred start-up costs on new disposable diaper capacity which came on stream to meet the needs of this growing European market.

In Japan, our business was affected by a depressed soap and detergent market combined with intense competitive activity.

While in the short-term, economic growth has slowed in many of the countries where we do business, we remain strongly optimistic about the long-term potential for new business in our international markets. These vast areas have nearly three times the population of the United States, and represent major opportunities for the Company's products in the years ahead.

**Long-Term
Results**

Everything considered, fiscal 1981 was a rather difficult year. However, as we have frequently pointed out in the past, the long-term development of the business is much more important than the results of any single year. A summary of the latest fifteen years is shown on pages 28 and 29. During that period, operating earnings per share have more than quadrupled, or increased at an average annual growth rate of 11%.

Looking ahead, our major priority is the long-term growth of the business, both in this country and abroad. On page 10 is a discussion on how the Company has grown in the past as well as a blueprint for our future growth.

**Research
and
Development**

The cornerstone of tomorrow's growth is today's research and development efforts. Last year, we spent \$253 million on research and development activities directed towards new products and the improvement of existing products.

A noteworthy achievement of our research organization this past year was the introduction of Advanced Formula Crest. Clinical studies revealed that the new formula substantially improves the cavity protection provided by the original Crest formula. This represents twenty-five years of research to improve upon the effectiveness of the original product introduced in 1955. Crest has long been the U.S. market leader in its product category, and this new development will help ensure the brand's long-term vitality.

**Capital
Expenditures**

In January, our new pulp plant in central Georgia began operations. This new facility, costing more than \$200 million, is located on a 1,600 acre site along the Flint River. It is expected to produce 300,000 tons of specialized pulp per year, primarily for our disposable diaper business. By burning bark and other by-products of the pulp-making process, the plant provides about 85% of its own energy needs.

Other new plants that came on stream during the past year were new detergent facilities in Dammam, Saudi Arabia, and Barquisimeto, Venezuela.

Last year, capital expenditures amounted to \$565 million, which is somewhat lower than the record levels of the past two years. In the coming year we are projecting a somewhat higher level of expenditures than the past year.

**Inflation
and
Taxes**

After the past several years of continuing inflation and economic stagnation in the United States, we join the millions of Americans who are looking to major changes in economic policies to get the country moving forward again. We support the program of the new Administration and bipartisan congressional efforts to reduce inflation and to improve the health of the economy. Cutting governmental spending will help reduce the rate of inflation. Reduction of both personal and business taxes should encourage personal investment and promote new capital formation in the private sector.

The excesses of the past will not be cured overnight. Over the next few years, however, we are optimistic that fiscal as well as monetary restraint will gradually reduce inflation and pave the way for real economic growth.

**Financial
Strengths**

Despite the pressure of inflation, our balance sheet remains strong with relatively modest debt in relation to total capital employed. Coupled with our ability to provide most of our cash needs from internally generated funds, this gives us considerable financing flexibility which is especially important during the current period of high borrowing rates.

During the past year, our financial position has strengthened as we have renewed efforts and installed new incentives throughout our operating divisions to keep working capital investment, particularly inventories, at minimum levels. Throughout our manufacturing and engineering organizations we are also striving to make our capital dollars work harder. Both of these efforts are essential for conserving cash and for maintaining the Company's financial strength.

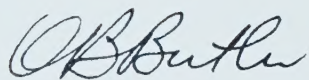
**Edward G.
Harness**

Edward G. Harness stepped aside as Chairman of the Board and Chief Executive officer on January 5, 1981. Mr. Harness had served the Company as President and then Chairman for nearly a decade, and had been Chief Executive officer since 1974. He had been the chief architect of our pulp and paper business since the early sixties and has guided it to the major position it holds in the industry today. During the seven years he served as the Company's Chief Executive officer, our sales and earnings more than doubled. We are indeed fortunate that he has agreed to serve as Chairman of the Executive Committee of the Board of Directors so that the Company can continue to benefit from his advice and counsel.

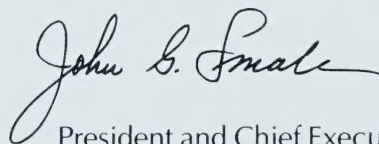
Despite the ever-present economic uncertainties throughout the world, we enter this second year of the eighties with confidence. Our optimism is based importantly on the ability of the men and women of P&G to successfully meet the difficult challenges of this decade. The creativity and dedication of our more than 60,000 employees throughout the world continue to be our greatest strengths. It is chiefly because of them that the business will continue to move ahead.

On June 1, 1981, Charles A. Ferguson, Group Vice President, European Operations, died from head injuries resulting from an accidental fall in his home outside Brussels, Belgium. His tragic death at the age of forty-one removed from our senior managerial ranks a talented and capable executive and a good friend.

Respectfully,



Chairman of the Board



President and Chief Executive

August 8, 1981

Organization Changes



Edwin L. Artzt



Thomas Laco

On January 5, 1981, the following changes were made in the top management of the Company:

Edward G. Harness was elected Chairman of the Executive Committee of the Board of Directors.

Owen B. Butler, previously Vice Chairman of the Board, was elected Chairman of the Board.

John G. Smale, President, was designated Chief Executive officer.

In preparation for the above moves, last year Thomas Laco was given responsibility for the consumer products business in the United States. Several months ago, the responsibilities of Edwin L. Artzt were increased to include all international consumer products. Both men are Executive Vice Presidents and report to the President.

Other changes in the senior management and Board of Directors during the past year included the following:

John D. Harper, former Chairman of the Board and Chief Executive Officer, Aluminum Company of America, retired from the Board of Directors. He had served with distinction as a Director since 1971.

William R. Gurganus, President, Procter & Gamble International and a Director since 1970, retired after more than thirty-three years of service. As the Company's senior officer for business outside the United States since 1969, he contributed immeasurably to the growth of our international business during this period.

Edwin L. Artzt, Executive Vice President, was elected to the Board to succeed Mr. Gurganus.

Robert E. Cannon was elected Group Vice President and given additional responsibility for the Industrial Chemicals Division. He was previously Vice President—Cellulose and Crushing Operations.

Wahib N. Zaki was elected Senior Vice President with staff responsibility for worldwide research and development. He was previously Vice President — Research and Development, Europe.

Opportunities for Growth



Keeping Old Markets Young

Developing New Markets

Global Market Expansion

Throughout Procter & Gamble's 144 years, the watchword has been growth—a healthy, sustainable rate of growth generated by the creativity of P&G people.

The Company's expanding technology base and increasingly sophisticated understanding of consumer needs has enabled P&G to be well positioned to meet future opportunities. Today, P&G's U.S. consumer business encompasses 28 product categories. We have the leading brand in 18 of those categories. Worldwide, P&G is the leader in soaps and detergents and disposable diapers.

As in the past, our strategy for growth will be based heavily on product innovation: in so-called "mature" markets, in expanding into new markets and in fast growing international markets.





The idea that some areas of P&G's business have seemed to "mature"—to reach a level where growth was not expected to exceed population growth—has emerged at periods throughout the Company's history. During the mid-19th century, the Company's candle business, then an important product to P&G, was threatened with near extinction by the introduction of electricity to American homes.

Electricity may have doomed the candle as a basic light source, but it also made possible the modern washing machine and a whole new class of laundry soap products. With washing made easier, the frequency of laundering and the consumption of laundry products increased.

In a similar vein, running water, automatically heated, together with the broad introduction of showers in American homes, increased the frequency of bathing. Growth in the consumption of bath soaps led to changes in the sizes, shapes and qualities of soap people preferred.

Keeping Old Markets Young

Advances in the field of chemistry enabled P&G to pioneer the development of synthetic detergents. Within just the past generation, this new technology formed the basis for many new laundry products. Convenient liquid detergents largely replaced granules for washing dishes. And an entire new category, liquid household cleaners, was created. Today the laundry and cleaning products market exceeds \$4.8 billion in the U.S. alone.

As the Company entered the 1970s, P&G's opportunities in the broad field of laundry and cleaning products may have appeared to some observers to be limited. Yet, in the past 10 years, the Company introduced Era, a liquid laundry detergent that has contributed to significant growth in this category. During the same years, P&G researchers developed a new dishwashing detergent, Dawn. Based on a grease-cutting formula, Dawn is one of the Company's most successful new brands, and is now a leader in its category.

The laundry process itself has continued to change. Rapid growth in the use of automatic dryers, combined with the use of synthetic fabrics, led to a growing demand for fabric softeners. P&G had pioneered in the expansion of the fabric softener category in the 1960s with Downy, a liquid product added to laundry during the rinse cycle.



In the 1970s, the Company's expanding knowledge of cellulose and fibers technology resulted in the development of Bounce, a dryer-added softener. P&G researchers discovered how to impregnate a non-woven sheet made from cellulose with fabric softener. The heat from the dryer releases Bounce's softening ingredients as the clothes dry.

More recently, P&G researchers have found a way to combine the benefits of a laundry detergent and fabric softener into one convenient product, Bold 3. Bold 3's business tripled in the three years following the adoption of this new product formula.

Looking ahead to the 1980s, demographic trends indicate that the number of households should increase faster than the number of people—a trend that should benefit manufacturers of household products. As female participation in the workforce increases, there is a growing demand for convenience products, such as automatic dishwashers, which as yet are found in only one-third of U.S. homes. Cascade, for dishwashers, is well positioned for this opportunity. As consumer habits and needs change, P&G's growth opportunities will continue to increase.



Procter & Gamble's approach to research goes beyond seeking growth opportunities only in those markets where we now compete. As we broaden our knowledge of materials, of technology, and of consumer needs in existing product areas, it is almost assured that applications in new categories will emerge.

This process began years ago when basic technology, related to raw materials—fats and oils—for the Company's soap business, provided the basis for diversification into Crisco shortening, and subsequently into salad and cooking oils, peanut butter, baking mixes and snack foods.

More recently, P&G's expanding knowledge of the coffee business has led the Company into new product areas. Folger's vacuum coffee, now the leading U.S. coffee brand, has been followed by Folger's Instant Crystals and High Point decaffeinated coffee. Also, as part of P&G's food service business, Folger's is being sold in many restaurants and offices throughout the U.S.

Developing New Markets

The 1980 acquisition of Crush International brought another addition, carbonated soft drinks, to the Company's beverage business. We have begun the necessary lengthy period of learning in this new and highly competitive category. Yet, the large worldwide carbonated soft drink market offers a potential long-term opportunity for P&G.

Looking to the future, it is difficult to predict where basic technology will lead. The Company's initial research into synthetic detergents, for instance, also opened the door for P&G to enter the shampoo business—a move which ultimately led to a broad line of products in the health and beauty aids field. Today Procter & Gamble is the leading manufacturer of dentifrices, deodorants and shampoos in the U.S. Opportunities for further expansion of this business area exist both here and abroad. In the U.S. alone, these three product areas make up a retail market that totals nearly \$3 billion.



One of the Company's latest entries in this field is Pert, a gentle-care shampoo with hair conditioner. Sold nationally for just one year, Pert has already become a major brand in the rapidly growing market for conditioning shampoos.

In a similar pattern, years of industrial experience with cellulose and fibers technology formed the foundation for the Company's entry, in 1957, into the household tissue products field. Over the past 24 years, P&G people have led the industry in technological breakthroughs and manufacturing innovations which have enabled Charmin and White Cloud tissues, Bounty paper towels and Puffs facial tissues, to become highly successful in their categories.

No one ever knows in advance exactly how big a new market may be when the right product comes along. When Pampers disposable diapers were introduced in the 1960s, the disposable market was very small and there was no visible growth trend. Today disposable diaper retail sales total nearly \$2 billion in the U.S., and are growing significantly in the rest of the industrialized world.

More recently, our research people's growing knowledge of diapering and non-woven disposable products has led the Company into other new markets. With the introduction of Attends briefs, a product especially designed for incontinence (a problem which frequently afflicts the elderly), and Boundary, a line of disposable products, primarily drapes and gowns for hospital surgical use, Procter & Gamble has made major entries into the growing field of institutional health care products.



Global Market Expansion

Over the past 35 years, Procter & Gamble's international business has grown dramatically. International's share of P&G's worldwide sales has risen from about one-fourth, ten years ago, to about one-third today. The keystone to this success has been the Company's soap and detergent products, and we expect this area of our business to continue to grow.

In 1970, less than 5% of total international shipments were in products outside the soap and detergent categories. Today that figure is more than 20% and growing rapidly. The expansion of Pampers to more than 70 countries is one of the major reasons for this growth.

Pampers is P&G's first worldwide consumer brand, marketed with a minimum of variation around the globe. No other brand in the Company's history has ever moved so far, so fast, and with such consistently good results.

Opportunities for additional expansion of P&G's disposable diaper business still remain. In the past 24 months alone, Pampers has become available in nine major new markets outside the U.S.—markets with a total population nearing 200 million people. At the same time, P&G's Luvs diapers and Attends incontinent briefs have begun initial expansion into international markets.



New categories offer further international growth opportunities in the 1980s. P&G toilet goods brands are now marketed in only a few areas abroad. In particular, the Company's shampoo products, such as Head & Shoulders, Prell, Drene or Pert, are sold broadly in just seven countries. Yet, in five of those countries, a P&G brand is the leading shampoo.

The rapid technological and demographic changes which the United States has experienced in the last few decades continue in many countries abroad, where population, real per capita incomes, and living standards are generally growing faster than in the U.S. These trends should favor P&G's business in geographic areas where we now operate as well as in areas where we expect to do business in the future. Argentina and Chile, for instance, are two countries recently added to the growing list of geographic areas where the Company is building a significant and profitable business.

Opportunities Have Never Been Greater

Whether through product innovation in established markets, entry into new markets or geographic expansion of the business, the balanced growth that has characterized the Company's past will continue into the 1980s. With 10 new consumer products in U.S. test markets, the pace of new product innovation is at an all-time high. We believe opportunities for future growth have never been greater and that Procter & Gamble is well positioned to meet those opportunities.



Consolidated Statement Of Earnings

The Procter & Gamble Company And Subsidiaries
Years Ended June 30, 1981, 1980 and 1979

Millions of Dollars Except Per Share Amounts

	1981	1980*	1979*
INCOME			
Net sales	\$11,416	\$10,772	\$9,329
Interest and other income	83	52	64
	11,499	10,824	9,393
COSTS AND EXPENSES			
Cost of products sold	7,854	7,471	6,378
Marketing, administrative, and other expenses	2,361	2,178	1,907
Interest expense	98	97	66
	10,313	9,746	8,351
EARNINGS FROM OPERATIONS BEFORE INCOME TAXES	1,186	1,078	1,042
INCOME TAXES	518	438	467
NET EARNINGS FROM OPERATIONS (before Extraordinary charge)	668	640	575
Extraordinary charge—costs associated with the suspension of sale of Rely tampons (less applicable tax relief of \$58)	(75)	—	—
NET EARNINGS	\$ 593	\$ 640	\$ 575
Per Common Share			
Net earnings from operations	\$8.08	\$7.74	\$6.95
Extraordinary charge	(.91)	—	—
Net earnings	\$7.17	\$7.74	\$6.95
Average shares outstanding: 1981—82,720,858 1980—82,659,861 1979—82,646,698			
Dividends	\$3.80	\$3.40	\$3.10

See Notes to Consolidated Financial Statements—pages 22-26.
*Restated for an accounting change—Note 2.

Consolidated Balance Sheet

The Procter & Gamble Company And Subsidiaries
June 30, 1981 and 1980

Millions of Dollars

ASSETS	1981	1980*
CURRENT ASSETS		
Cash	\$ 20	\$ 32
Marketable securities	596	445
Accounts receivable, less allowance for doubtful accounts	775	879
Inventories	1,447	1,488
Prepaid expenses and other current assets	214	182
	<u>3,052</u>	<u>3,026</u>
PROPERTY, PLANT, AND EQUIPMENT	5,131	4,657
Less accumulated depreciation	<u>1,422</u>	<u>1,256</u>
	<u>3,709</u>	<u>3,401</u>
OTHER ASSETS, INCLUDING GOODWILL	200	145
TOTAL	<u>\$6,961</u>	<u>\$6,572</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable—trade	\$ 730	\$ 717
Accounts payable—other	200	186
Accrued liabilities	439	319
Taxes payable	189	182
Debt due within one year	172	306
	<u>1,730</u>	<u>1,710</u>
LONG-TERM DEBT	846	835
DEFERRED INCOME TAXES	522	445
SHAREHOLDERS' EQUITY		
Common shares	83	83
Additional paid-in capital	206	202
Earnings retained in the business	3,574	3,297
	<u>3,863</u>	<u>3,582</u>
TOTAL	<u>\$6,961</u>	<u>\$6,572</u>

See Notes to Consolidated Financial Statements—pages 22-26.

*Restated for an accounting change—Note 2.

Consolidated Statement Of Earnings Retained In The Business

The Procter & Gamble Company And Subsidiaries
Years Ended June 30, 1981, 1980 and 1979

Millions of Dollars

	1981	1980*	1979*
Balance at beginning of year	<u>\$3,297</u>	<u>\$2,939</u>	<u>\$2,629</u>
Net earnings	593	640	575
Dividends to shareholders	(314)	(281)	(256)
Excess of cost over stated value of common shares and 8% preferred shares purchased for treasury	(2)	(1)	(9)
Balance at end of year	<u>\$3,574</u>	<u>\$3,297</u>	<u>\$2,939</u>

Consolidated Statement Of Changes In Financial Position

The Procter & Gamble Company And Subsidiaries
Years Ended June 30, 1981, 1980 and 1979

Millions of Dollars

SOURCE OF FUNDS	1981	1980*	1979*
Net earnings from operations	\$ 668	\$ 640	\$ 575
Depreciation and depletion	237	196	170
Deferred income taxes	67	42	50
Total from operations	972	878	795
Extraordinary charge	(75)	—	—
Increase in long-term debt	80	231	108
Decrease in inventories	41	(239)	(203)
Decrease in accounts receivable	104	(185)	(88)
Increase in other current liabilities	88	106	199
Other items, net	11	(7)	(40)
	<u>1,221</u>	<u>784</u>	<u>771</u>
USE OF FUNDS			
Capital expenditures	565	765	627
Dividends to shareholders	314	281	256
Reduction of long-term debt	69	39	39
Decrease in debt due within one year	134	(159)	(47)
	<u>1,082</u>	<u>926</u>	<u>875</u>
INCREASE (DECREASE) IN CASH AND MARKETABLE SECURITIES	<u>\$ 139</u>	<u>\$ (142)</u>	<u>\$ (104)</u>

See Notes to Consolidated Financial Statements—pages 22-26.

*Restated for an accounting change—Note 2.

Notes To Consolidated Financial Statements

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION: The financial statements include the accounts of The Procter & Gamble Company and its majority-owned subsidiaries. Investments in 20% to 50% owned affiliates in which significant management control is exercised are included at original cost adjusted for the change in equity since acquisition. Other investments in affiliates are carried at cost.

MARKETABLE SECURITIES: Substantially all of the marketable securities are government and corporate debt instruments which are carried at cost which approximates market.

INVENTORY VALUATION: Inventories are valued at the lower of cost or market. Cost for substantially all of the materials used in the United States is determined by the last-in, first-out method. For the remaining inventories, cost is determined primarily by the average cost method.

GOODWILL: The excess of the purchase price over the value ascribed to net tangible assets of businesses acquired after October 31, 1970 is amortized on a straight-line basis over forty years. Goodwill arising prior to that date is not amortized.

DEPRECIATION: Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties for financial accounting purposes.

INCOME TAXES: Provision is made for the income tax effects of all transactions in the consolidated statement of earnings, including those for which actual tax payment or tax relief is deferred to future years. These deferrals result primarily from the use of shorter equipment lives and accelerated methods of depreciation for tax purposes.

Investment tax credits are recognized as a reduction of the tax expense in the year in which the related assets are placed in service or earlier where permitted by tax regulations.

OTHER EXPENSES: Advertising and research and development costs are charged against earnings in the year incurred.

2. Accounting Changes

The Company in 1981 extended the last-in, first-out (LIFO) inventory cost method to additional inventories. The reduction in earnings resulting from this extension principally affected the Food Products segment. There is no effect on prior years' earnings.

In order to comply with a new accounting rule, the Company in 1981 began expensing certain vacation benefits when earned rather than when paid. Net earnings from operations for prior years have been restated by amounts ranging from \$1 million to \$4 million per year.

Another new accounting rule was adopted in 1981. Interest expense of \$13 million before tax applicable to certain major construction projects has been capitalized. There is no effect on prior years' earnings.

The effect of these accounting changes on net earnings from operations in 1981 is as follows:

	Millions of Dollars	Per Share
Extension of LIFO accounting	\$(14)	\$(.17)
Additional vacation expense	(1)	(.01)
Capitalized interest	7	.09
Total effect of accounting changes	<u>\$(8)</u>	<u>\$(.09)</u>

3. Earnings Statement Information

The following information is provided for years ended June 30:

Millions of Dollars

	<u>1981</u>	<u>1980*</u>	<u>1979*</u>
RESEARCH AND DEVELOPMENT COSTS	\$253	\$228	\$204
GAINS ARISING FROM CHANGES IN CURRENCY			
EXCHANGE RATES —primarily from balance sheet translation (including effects resulting from sale of inventories on hand when exchange rates changed)	14	2	2
EARNINGS FROM OPERATIONS BEFORE INCOME TAXES			
U.S.	984	853	852
International	202	225	190
TOTAL TAX EXPENSE FROM OPERATIONS including income taxes identified separately on the consolidated statement of earnings as well as property, franchise, social security, and other taxes paid to federal, state and local govern- ments throughout the world which are included in other cost and expense categories	728	631	615
U.S. INVESTMENT TAX CREDITS (which accounted for the principal difference between the statutory and the effective tax rates)	41	60	30
DEFERRED INCOME TAX EFFECT OF THE EXCESS OF TAX DEPRECIATION over that charged against earnings for financial accounting purposes (the primary component of deferred income taxes shown below).	72	66	52
INCOME TAXES			
Current			
Federal	320	295	317
Foreign	68	77	74
Other	30	24	26
	418	396	417
Deferred			
Federal	74	29	26
Foreign and Other	26	13	24
	100	42	50

*Restated for an accounting change — Note 2.

4. Balance Sheet Information

The following information is provided as of June 30:

Millions of Dollars

	<u>1981</u>	<u>1980</u>
INVENTORIES		
Raw materials and supplies	\$ 588	\$ 595
Work in process	148	149
Finished products	711	744
	1,447	1,488
Excess of replacement cost over stated value of LIFO inventories	313	318

	<u>1981</u>	<u>1980</u>
PROPERTY, PLANT, AND EQUIPMENT, at cost		
Buildings	898	802
Machinery and equipment	4,039	3,691
Land	101	90
Timberlands, less depletion	93	74
	5,131	4,657

LONG-TERM DEBT

8¼% sinking fund debentures, due 2005 (annual sinking fund payments of \$15 million will be required beginning in March, 1986)	\$298	\$298
10.3% notes due in June, 1985	150	150
7% sinking fund debentures, due 2002 (annual sinking fund payments of \$5 million will be required beginning in May, 1983)	89	99
6½% Deutsche mark note, payable in installments of \$8 million each in December, 1983 and 1984, and \$13 million each in December, 1985 and 1986	42	57
4.7% to 6% installment purchase obligations related to industrial revenue bonds, payable in varying amounts annually from 1983 through 2009	63	64
Other, due in varying amounts through 1994	231	201
	873	869
Less amounts included in debt due within one year	(27)	(34)
Total long-term debt	\$846	\$835

The following payments, in millions, are required during the next five fiscal years: 1982—\$27; 1983—\$119; 1984—\$37; 1985—\$189; 1986—\$42.

5. Shareholders' Equity

Authorized common stock is 100,000,000 shares (without par value) with stated value of \$1 per share. There were 82,742,342 shares and 82,720,761 shares outstanding at June 30, 1981 and 1980, respectively.

Authorized 8% (cumulative) preferred stock is 22,500 shares of \$100 par value each. There were 3,841 shares and 4,019 shares outstanding at June 30, 1981 and 1980, respectively, after deducting 18,659 shares and 18,481 shares held in treasury at those dates. Also, 3,000,000 shares of a separate class of authorized preferred stock of \$100 par value were undesignated and unissued.

Under the Company's stock option plans, options have been granted to key employees to purchase common shares of the Company at the market value on the dates of the grants. Activity was as follows:

	<u>Year Ended June 30, 1981</u>		<u>Year Ended June 30, 1980</u>	
	<u>Shares</u>	<u>Average Price</u>	<u>Shares</u>	<u>Average Price</u>
Outstanding at beginning of year ...	1,535,820	\$84.20	1,382,237	\$85.62
Options granted	269,950	66.44	246,300	71.69
Options exercised	(36,055)	58.87	(47,607)	57.63
Options canceled	(48,620)	82.73	(45,110)	87.19
Outstanding at end of year	1,721,095	81.99	1,535,820	84.20

Options for 1,042,305 and 913,630 shares were exercisable at June 30, 1981 and 1980, respectively. There were 771,660 and 1,007,940 shares available for the granting of options at June 30, 1981 and 1980, respectively.

Additional paid-in capital increased in the years ended June 30 as follows:

Millions of Dollars

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Excess amount realized over the stated value of:			
Common shares issued upon exercise of options (36,055, 47,607 and 28,412 shares respectively. Includes 14,474 treasury shares in 1981)	\$ 3	\$ 3	\$ 2
Common treasury shares issued to key employees under the Plan for Use of Shares in Payment of Remuneration (14,781, 597 and 226 shares respectively)	1	—	—
127,261 common treasury shares issued in connection with the acquisition of a cottonseed crushing and refining facility (includes 114,815 shares acquired in 1979)	—	10	—
Increase in additional paid-in capital	\$ 4	\$13	\$ 2

6. Litigation

In October, 1967, a suit was filed by the Purex Corporation, Ltd., of Lakewood, California against Procter & Gamble and The Clorox Company claiming alleged damages of \$174 million trebled to \$523 million, as a result of the Company's acquisition and operation of the Clorox business. On July 23, 1976, the Court entered judgment in favor of the Company and Clorox. Purex appealed from this judgment. On May 11, 1979, the Court of Appeals announced it vacated the judgment and remanded the case to the District Court for further consideration. On March 14, 1980 the District Court again entered judgment in favor of the Company and Clorox. Purex has filed an appeal of this judgment. The Company remains optimistic about the ultimate outcome.

7. Segment Information

Sales between geographic areas and those between business segments, included in net sales below, are made at prices approximating market and are eliminated from total net sales. Corporate earnings include interest income and expense, gains and losses from exchange rate changes and other general corporate income and expense. Corporate assets include primarily cash and marketable securities.

GEOGRAPHIC AREAS

The Company's international operations are conducted in various countries primarily through self-contained subsidiaries. Each country has a distinct social, political, economic and business environment. No individual country amounts to 10% of consolidated sales or assets.

Millions of Dollars	<u>United States</u>	<u>International</u>	<u>Corporate</u>	<u>Total</u>
<u>Net Sales</u>				
1979	\$6,722	\$2,871	\$(264)	\$ 9,329
1980	7,637	3,493	(358)	10,772
1981	8,044	3,750	(378)	11,416
<u>Earnings from operations, after tax</u>				
1979*	467	115	(7)	575
1980*	519	148	(27)	640
1981	556	130	(18)	668
<u>Assets</u>				
1979*	3,575	1,360	745	5,680
1980*	4,219	1,750	603	6,572
1981	4,397	1,769	795	6,961

*Restated for an accounting change—Note 2.

BUSINESS SEGMENTS

The Company's operations are characterized by interrelated raw materials and manufacturing facilities and centralized research and administrative staff functions, making any separate profit determination by product category dependent upon necessarily arbitrary assumptions as to allocations of common costs. Different assumptions or physical or organizational arrangements would produce different results.

Millions of Dollars	Laundry and Cleaning Products	Personal Care Products	Food Products	Other Products	Corporate	Total
<u>Net sales</u>						
1979	\$3,671	\$3,047	\$2,063	\$ 741	\$(193)	\$ 9,329
1980	4,199	3,638	2,313	850	(228)	10,772
1981	4,530	4,067	2,192	871	(244)	11,416
<u>Earnings from operations, pretax</u>						
1979*	531	433	49	51	(22)	1,042
1980*	612	405	44	80	(63)	1,078
1981	648	460	44	61	(27)	1,186
<u>Assets</u>						
1979*	1,480	1,919	895	641	745	5,680
1980*	1,716	2,394	1,008	851	603	6,572
1981	1,703	2,434	971	1,058	795	6,961
<u>Capital expenditures</u>						
1979	149	251	105	122	—	627
1980	161	303	81	220	—	765
1981	156	221	46	129	13	565
<u>Depreciation</u>						
1979	45	61	23	27	14	170
1980	53	77	30	30	6	196
1981	63	93	33	37	11	237

*Restated for an accounting change—Note 2.

Laundry and Cleaning Products include detergents, fabric softeners, cleaners and cleansers. Personal Care Products include bar soaps, toothpastes, mouthwash, deodorants, shampoos, paper tissue products and disposable diapers. Sales of disposable diapers represented approximately 16%, 14% and 12% of consolidated sales in 1981, 1980 and 1979, respectively. Food Products include shortenings and oils, cake mixes, peanut butter, potato chips and coffee. Products of the Laundry and Cleaning Products, Personal Care Products and Food Products segments are distributed primarily through grocery stores and other retail outlets. Other Products include cellulose pulp, chemicals and animal feed ingredients which are sold direct to customers and through jobbers. Net sales of Other Products include intersegment sales amounting, in millions, to \$199 in 1981, \$180 in 1980 and \$150 in 1979.

8. Supplemental Information on the Effects of Inflation and Changing Costs (Unaudited)

Information concerning the effects of inflation and changing costs is presented on pages 30 and 31.

9. Quarterly Results (Unaudited)

Millions of Dollars Except Per Share Amounts

Quarter Ended	Net Sales		Net Earnings From Operations*		Per Share of Common Stock			
					Net Earnings From Operations*		Dividends	
	1980-81	1979-80	1980-81	1979-80	1980-81	1979-80	1980-81	1979-80
September 30	\$ 2,908	\$ 2,664	\$194**	\$185	\$2.34**	\$2.24	\$.95	\$.85
December 31	2,759	2,622	158	146	1.91	1.76	.95	.85
March 31	2,949	2,790	172	188	2.09	2.28	.95	.85
June 30	2,800	2,696	144	121	1.74	1.46	.95	.85
Total Year	\$11,416	\$10,772	\$668	\$640	\$8.08	\$7.74	\$3.80	\$3.40

*Net earnings and earnings per share from operations for each quarter have been restated for the accounting changes discussed in Note 2. In 1981, these changes reduced earnings \$1 million (\$.01 per share) in the quarter ended September 30; \$1 million (\$.01 per share) in the quarter ended December 31; \$9 million (\$.11 per share) in the quarter ended March 31; and increased earnings by \$3 million (\$.04 per share) in the quarter ended June 30. In 1980, net earnings and earnings per share from operations were reduced by \$1 million (\$.01 per share) in the quarters ended September 30, December 31 and March 31. The effect in the quarter ended June 30 was negligible.

**Excludes extraordinary charge of \$75 million (\$.91 per share).

Report of Independent Accountants



425 Walnut Street
Cincinnati, Ohio 45202

To the Board of Directors and Shareholders of The Procter & Gamble Company:

We have examined the consolidated balance sheets of The Procter & Gamble Company and subsidiaries as of June 30, 1981 and 1980 and the related consolidated statements of earnings, earnings retained in the business, and changes in financial position for each of the three years in the period ended June 30, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the companies at June 30, 1981 and 1980 and the results of their operations and the changes in their financial position for each of the three years in the period ended June 30, 1981, in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes in 1981 in the methods of accounting for certain inventories and interest costs related to major construction projects, and after restatement for the change in the method of expensing vacation benefits; we concur with each of these changes, which are described in Note 2 to the consolidated financial statements.

Deloitte Haskins & Sells

August 8, 1981

Shareholders' Meeting

The next annual meeting of the shareholders will be held on Tuesday, October 13, 1981, at the Company's General Offices, 301 East Sixth Street, Cincinnati, Ohio 45202.

Form 10-K

Shareholders may obtain a copy of the Company's 1980-81 report to the Securities and Exchange Commission on Form 10-K by sending a request to: Mrs. Rita M. Neago, Assistant Secretary, The Procter & Gamble Company, P.O. Box 599, Cincinnati, Ohio 45201. The report will be available in October, 1981.

Additional Financial Information

Millions of Dollars	1977	1978	1979	1980	1981
Total Assets	\$4,500	\$4,998	\$5,680	\$6,572	\$6,961
Long-Term Debt	\$ 533	\$ 574	\$ 642	\$ 835	\$ 846

Financial Review 1966-1981

The Procter & Gamble Company And Subsidiaries
Years Ended June 30

Millions of Dollars Except Per Share Amounts

	1966	1967	1968
NET SALES	\$2,243	\$2,439	\$2,543
NET EARNINGS*.....	\$ 145	\$ 174	\$ 182*
NET EARNINGS* PER COMMON SHARE	\$ 1.69	\$ 2.04	\$ 2.15*
NET EARNINGS* AS PERCENT OF NET SALES	6.5%	7.1%	7.2%*
DIVIDENDS PER COMMON SHARE	\$.963	\$ 1.05	\$ 1.15

*Excludes in 1968 an extraordinary profit of \$19 million (\$.23 per share) on sale of 15% of the Company's investment in The Clorox Company. Excludes in 1981 an extraordinary charge of \$75 million (\$.91 per share) associated with the suspension of sale of Rely tampons.

Analysis And Discussion

1981

Net sales in 1981 increased 6 percent over those for 1980. While unit volume was slightly greater, the increase was primarily due to higher selling prices.

Net earnings from operations for 1981 were reduced by \$8 million, or 9¢ per share, from the effects of several accounting changes. Most importantly, the application of last-in, first-out (LIFO) accounting was extended to additional inventories. Two other changes, involving the capitalization of interest applicable to certain major construction projects (thereby reducing interest expense), and the expensing of certain vacation benefits when earned rather than when paid, were made to comply with new accounting rules.

The growth in net earnings from operations was also reduced by a higher effective tax rate. Domestic investment tax credits were \$19 million higher in 1980, resulting from the completion of a number of major capital projects, and were the major reason for the higher tax rate in 1981. Operating earnings on a before tax basis were up 10 percent compared with 1980.

Net earnings—exclusive of the \$75 million after-tax, or 91¢ per share extraordinary charge in the first quarter arising from the Company's decision to suspend the sale of Rely Tampons—were up 4 percent over 1980.

1980

Net sales in 1980 increased 15% over those for 1979. While greater unit volume contributed importantly, the larger portion of the increase was due to higher selling prices which were the consequence of rapidly rising costs.

Interest and other income decreased \$12 million principally as a result of a smaller portfolio of marketable securities, and interest expense increased \$31 million primarily due to higher levels of short-term borrowings.

The effective rate of income taxes was lower in 1980 than in 1979 principally for two reasons. First, the Company's investment tax credits in the United States were significantly higher in fiscal 1980 as a result of the completion of a number of major capital projects. Second, the U.S. statutory income tax rate was 46% for fiscal 1980 versus a rate of 47% for the previous year. Earnings on a before tax basis were up 3% compared with 1979.

Net earnings increased 11% over 1979 despite an unprecedented level of new brand activity in the United States.

1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
2,708	\$2,979	\$3,178	\$3,514	\$3,907	\$4,912	\$6,082	\$6,513	\$7,284	\$8,100	\$9,329	\$10,772	\$11,416
187	\$ 211	\$ 237	\$ 276	\$ 301	\$ 316	\$ 332	\$ 400	\$ 460	\$ 510	\$ 575	\$ 640	\$ 668*
2.25	\$ 2.59	\$ 2.90	\$ 3.37	\$ 3.67	\$ 3.84	\$ 4.03	\$ 4.85	\$ 5.57	\$ 6.17	\$ 6.95	\$ 7.74	\$ 8.08*
6.9%	7.1%	7.5%	7.8%	7.7%	6.4%	5.5%	6.1%	6.3%	6.3%	6.2%	5.9%	5.9%*
1.25	\$1.325	\$ 1.40	\$ 1.50	\$ 1.56	\$ 1.80	\$ 1.90	\$ 2.05	\$ 2.40	\$ 2.70	\$ 3.10	\$ 3.40	\$ 3.80

Net earnings and net earnings per common share for all years prior to 1981 have been restated for an accounting change by amounts ranging from \$1 million to \$4 million per year. See Note 2.

Net earnings per common share have been adjusted for the stock split in 1970.

FINANCIAL CONDITION

The Company has historically generated from its operations the majority of funds needed to provide for working capital needs and the capital spending programs that support the basic growth of the business, and pay dividends to its shareholders. This pattern is expected to continue. Indicative of the strong financial position of the Company are cash and securities on hand at June 30, 1981 of \$616 million, and its AAA credit rating. This strong credit rating provides the Company significant flexibility in choosing from numerous financing alternatives, both short and longer term, in the domestic and international capital markets.

While the primary source of the Company's liquidity has come from internally generated funds, total debt outstanding at June 30, 1981 amounted to \$1,018 million, representing 19 percent of total capital employed. For comparison, debt as a percent of total capital employed as of June 30, 1980, 1979, and 1978 was 22, 18, and 17 percent, respectively. The only significant change in our long-term debt position over the last three years was the issuance of five year notes in the amount of \$150 million in June 1980, at an interest rate of 10.3%.

The investment in receivables and inventories, less payables, amounted to \$1,292 million as of June 30, 1981. This represents an increase of \$347 million, or 37 percent over the investment at the beginning of 1979. Sales during this three-year period increased 41 percent.

Capital expenditures totaled \$1,957 million from 1979 through 1981, including \$565 million in 1981. A somewhat higher level of capital spending is projected for the coming year.

Dividends during the period 1979 through 1981 amounted to \$851 million and have been increased from \$3.10 per share in 1979 to \$3.80 per share in the current fiscal year.

INFLATION AND CHANGING COSTS

See pages 30 and 31: Supplemental Information On The Effects Of Inflation And Changing Costs.

Supplemental Information On

The Effects Of Inflation And Changing Costs (Unaudited)

The Financial Accounting Standards Board requires larger companies to publish information about some of the effects of inflation on conventional financial statements, including the overstatement of earnings that results from ignoring the higher cost of replacing inventory, and plant and equipment acquired in the past.

This information is reported on two different bases. The first is referred to as "constant dollar". This method adjusts cost of products sold and depreciation expense upward for increases in the rate of general inflation, as measured by the U.S. Consumer Price Index, since the related inventory, and plant and equipment were acquired. The second method is referred to as "current cost". It adjusts cost of products sold and depreciation expense upward based on changes in the specific costs of our inventory, and plant and equipment since they were acquired. Under both methods, the adjusted amounts are stated in average dollars of purchasing power for the most recent fiscal year.

Shareholders are cautioned that both methods are experimental. Neither measures fully all of the complex effects of inflation. Aside from these common limitations, the Company believes that adjusted "current cost" earnings are more relevant to our operations since the adjustments are based upon cost increases of our assets, rather than upon the market basket of consumer goods measured by the Consumer Price Index. In addition, while the Consumer Price Index is recognized as an indicator of the general rate of inflation, it has been criticized for tending to overstate the overall inflation rate, a viewpoint shared by the Company.

Earnings From Operations Adjusted for General Inflation and Changing Costs

Millions of Dollars Except Per Share Amounts	1980-81 Dollars		
	As Reported	Adjusted for General Inflation (Constant Dollar)	Adjusted for Specific Cost Changes (Current Cost)
<u>Year Ended June 30, 1981</u>			
Net sales	\$11,416	\$11,416	\$11,416
Costs and expenses (excluding all taxes)			
Cost of products sold	7,499	7,581	7,472
Depreciation	237	388	404
Other costs and expenses, net	2,284	2,284	2,284
Earnings from operations before all taxes	1,396	1,163	1,256
Total tax expense from operations	728	728	728
Net earnings from operations	\$ 668	\$ 435	\$ 528
Per common share	\$ 8.08	\$ 5.25	\$ 6.38
Dividends as a percent of net earnings from operations	47%	72%	60%
<u>Year Ended June 30, 1980</u>			
Net earnings from operations*	\$ 640	\$ 440	\$ 474
Per common share*	\$ 7.74	\$ 5.32	\$ 5.74

*Restated for an accounting change—Note 2.

Current cost of products sold adjustments were determined from estimates of the cost of non-LIFO materials and expenses at the time of sale. Current cost depreciation expense was based on the same methods and depreciable lives used in the primary financial statements.

Adjusted "current cost" earnings from operations of \$528 million in 1980-81 compare to reported earnings of \$668 million, demonstrating the ever increasing cost of replacing assets during inflationary times. The difference is due primarily to higher depreciation expense on buildings, machinery, and equipment revalued upward for specific cost changes since their acquisition.

Of major significance above is that total tax expense from operations, including property, franchise, social security, and other taxes paid throughout the world, as well as income taxes, remains unchanged despite the decrease in adjusted pre-tax earnings. As a result, total tax expense as a percent of earnings before all taxes increases from 52% on an "as reported" basis to 58% on a "current cost" basis, underscoring our even higher tax burden during periods of inflation.

Balance Sheet Information Adjusted for General Inflation and Changing Costs

Millions of Dollars Except Per Share Amounts

		1980-81 Dollars	
	As Reported	Adjusted for General Inflation (Constant Dollar)	Adjusted for Specific Cost Changes (Current Cost)
<u>Year Ended June 30, 1981</u>			
Inflation gain on net amounts owed		\$ 131	\$ 131
Property, Plant, and Equipment	\$3,709	5,454	5,782
Inventories	1,447	1,780	1,713
Net Assets	3,863	5,998	6,259
Per common share	\$46.68	\$72.49	\$75.64
<u>Year Ended June 30, 1980</u>			
Inflation gain on net amounts owed		\$ 173	\$ 173
Net assets*	\$3,582	5,914	6,450

*Restated for an accounting change—Note 2.

The current cost of property, plant, and equipment was determined from the Company's domestic cost index, or comparable foreign indices, applied by year of asset acquisition. The current cost of inventories was based on current market or receipt prices of materials and current manufacturing expenses.

The "inflation gain on net amounts owed" provides a general dimension of the benefit to the Company for eventual repayment of its debt in dollars of reduced purchasing power due to continuing inflation the past two years.

Inflation causes an understatement of asset values in the conventional balance sheet since the current cost of property, plant, and equipment and inventories is higher than the reported historical cost. Net assets at June 30, 1981 on a current cost basis were higher by \$2,396 million, or 62% than net assets as reported on that date.

Replacement costs of property, plant, and equipment and inventories have been increasing at a slower rate during the past two years than general inflation as measured by the Consumer Price Index. During the latest year, these specific replacement costs increased by \$252 million. If cost changes on these assets had equaled the general rate of inflation, the increase would have been \$699 million. Comparable figures for the previous year, expressed in 1980-81 dollars, were \$517 million and \$1,030 million, respectively.

Five Year Comparison of Selected Financial Information Adjusted for General Inflation

The declining purchasing power of the dollar distorts financial comparisons with prior years. The following table presents a five year history of sales, dividends, and market price per common share, stated in average dollars of purchasing power for the most recent fiscal year. Over the five year period, the Company's sales and dividends per share have each increased at an average annual rate of 12% as measured by the reported numbers, or faster than the 10% rate of general inflation. When measured in 1980-81 dollars, the average annual rate of "real" growth is 2% for both sales and dividends over the five years.

	Year Ended June 30				
	1977	1978	1979	1980	1981
Net sales—millions of dollars					
As reported	\$ 7,284	\$ 8,100	\$ 9,329	\$10,772	\$11,416
In average 1980-81 dollars	10,748	11,200	11,793	12,013	11,416
Cash dividends per common share					
As reported	\$ 2.40	\$ 2.70	\$ 3.10	\$ 3.40	\$ 3.80
In average 1980-81 dollars	3.54	3.73	3.92	3.79	3.80
Market price per common share at year-end					
As reported	\$ 80.12	\$ 86.00	\$ 76.88	\$ 73.75	\$ 75.75
In average 1980-81 dollars	114.33	114.23	92.07	77.26	72.43
Average Consumer Price Index	100.0	106.7	116.7	132.3	147.6

Responsibility For The Financial Statements

The financial statements of The Procter & Gamble Company and its subsidiaries are the responsibility of, and have been prepared by, the Company, in accordance with generally accepted accounting principles. To help ensure the accuracy and integrity of its financial data, the Company has developed and maintains internal accounting controls which are designed to provide reasonable assurances that transactions are executed as authorized and accurately recorded, and that assets are properly safeguarded. These controls are monitored by an extensive program of internal audits.

The financial statements have been examined by the Company's independent public accountants, Deloitte Haskins & Sells. Their report is shown on page 27.

The Board of Directors has an Audit Committee composed of six outside Directors. The Committee meets periodically with representatives of Deloitte Haskins & Sells and financial management to review accounting, control, auditing, and financial reporting matters. To help assure the independence of the public accountants, Deloitte Haskins & Sells regularly meets privately with the Audit Committee.

Common Stock Information

Transfer Agents

Morgan Guaranty Trust
Company of New York
30 W. Broadway
New York, N.Y. 10015

The Procter & Gamble Company
301 E. 6th St.
Cincinnati, Ohio 45202

Registrars

Morgan Guaranty Trust
Company of New York
30 W. Broadway
New York, N.Y. 10015

The Central Trust Company, N.A.
5th and Main Sts.
Cincinnati, Ohio 45202

Exchange Listing

New York, Cincinnati, Amsterdam, Paris, Basle, Geneva, Lausanne, Zurich, Frankfurt, Antwerp, Brussels

Price Range

The quarterly price range of common shares based on the NYSE — Composite transactions is shown below:

Quarter Ended	1980-81		1979-80	
	High	Low	High	Low
September 30	82¾	70⅞	80⅝	72¾
December 31	76⅞	63	79⅝	70¼
March 31	74¾	65⅞	75⅞	62¾
June 30	78	67¾	79⅝	66½

Shareholders of Common Stock

There were 95,041 shareholders of common stock of record as of July 24, 1981.

Principal Operating Companies

In The United States

The Procter & Gamble Company
The Procter & Gamble Distributing Company
The Procter & Gamble Manufacturing Company
The Procter & Gamble Paper Products Company
The Buckeye Cellulose Corporation
The Buckeye Oilseed Products Company
The Crush Companies
The Duncan Hines Companies
The Folger Coffee Company

In Other Countries

Austria: Procter & Gamble Vertriebsgesellschaft m.b.H.
Belgium: Procter & Gamble Benelux
Canada: Procter & Gamble Inc.
Procter & Gamble Cellulose, Ltd.
Procter & Gamble Specialties Limited
Victory Soya Mills Limited
Federal Republic of Germany: Procter & Gamble GmbH
Finland: Procter & Gamble OY
France: Procter & Gamble France
Great Britain: Procter & Gamble Limited
Greece: Procter & Gamble Hellas A.E.
Italy: Procter & Gamble Italia, S.p.A.
Japan: Procter & Gamble Sunhome Co., Ltd.
Procter & Gamble Japan K.K.
Lebanon: The Procter & Gamble Manufacturing Company of Lebanon, S.A.L.
Mexico: Procter & Gamble de Mexico, S.A. de C.V.
Morocco: Moroccan Modern Industries
The Netherlands: Procter & Gamble Benelux
Peru: Deterperu, S.A.
Philippines: Procter & Gamble Philippine Manufacturing Corporation
Puerto Rico: The Procter & Gamble Commercial Company
Saudi Arabia: Modern Industries Company
Spain: Procter & Gamble España, S.A.
Sweden: Procter & Gamble Aktiebolag
Switzerland: Procter & Gamble A.G.
Venezuela: Procter & Gamble de Venezuela, C.A.

